

KuibyshevAzot Group

International Financial Reporting Standards
Consolidated financial statements
and Independent auditors' report

31 December 2010



Consolidated financial statements and auditors' report

31 December 2010

Contents

Independent auditors' report	1
Consolidated financial statements	
Consolidated statement of financial position	3
Consolidated statement of comprehensive income.....	4
Consolidated statement of changes in equity	5
Consolidated statement of cash flows.....	6
Notes to the consolidated financial statements	
1 The Group and its operations	7
2 Basis of preparation and significant accounting policies.....	7
3 Critical accounting estimates and judgements in applying accounting policies	14
4 Adoption of new or revised standards and interpretations	15
5 New accounting pronouncements.....	16
6 Operating segment information	17
7 Balances and transactions with related parties.....	19
8 Cash and cash equivalents.....	20
9 Receivables and prepayments	20
10 Inventories	21
11 Property, plant and equipment.....	21
12 Investments in associates.....	22
13 Financial assets.....	22
14 Borrowings.....	23
15 Advances received and other current liabilities.....	24
16 Other taxes payable.....	24
17 Retirement benefit obligations	25
18 Share capital.....	26
19 Sales.....	26
20 Cost of sales	27
21 Distribution costs	27
22 General and administrative expenses.....	27
23 Other operating income	27
24 Other operating expenses	28
25 Finance income	28
26 Finance costs	28
27 Income taxes	28
28 Contingencies, commitments and operating risks	29
29 Principal subsidiaries.....	31
30 Financial risks management.....	32
31 Events after the reporting period.....	35

Independent auditors' report

To the Board of Directors of Open Joint Stock Company "KuibyshevAzot"

We have audited the accompanying consolidated financial statements of Open Joint Stock Company "KuibyshevAzot" and its subsidiaries, which comprise the consolidated statement of financial position as at 31 December 2010, and the consolidated statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Open Joint Stock Company "KuibyshevAzot" and its subsidiaries as at 31 December 2010, and their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on supplementary information

We have also reviewed the translation of the consolidated financial statements expressed in Russian Roubles into US dollars, which has been translated on the basis described in Note 2.4. In our opinion, the accompanying supplementary information expressed in US dollars has been properly translated in accordance with the basis described in Note 2.4. As this supplementary information has not been translated in accordance with IAS 21 *The Effects of Changes in Foreign Exchange Rates*, and does not contain all information required to be considered a complete set of financial statements as required by IAS 1 *Presentation of Financial Statements*, this conversion is not in accordance with IFRS.

Ernst & Young LLC

30 April 2011



Consolidated statement of financial position

as at 31 December 2010

(in millions of Russian Roubles, unless otherwise stated)

	Note	At 31 December		Supplementary information US\$ million (Note 2) At 31 December	
		2010	2009	2010	2009
Assets					
Current assets					
Cash and cash equivalents	8	1,843	1,738	60	57
Receivables and prepayments	9	3,338	3,005	110	99
Inventories	10	4,335	2,922	142	97
Other financial assets	13	187	64	6	2
Total current assets		9,703	7,729	318	255
Non-current assets					
Property, plant and equipment	11	11,565	11,349	379	374
Intangible assets		40	47	1	2
Prepayments for property, plant and equipment		478	659	16	21
Investments in associates	12	181	178	6	6
Financial assets	13	291	334	10	11
Total non-current assets		12,555	12,567	412	414
Total assets		22,258	20,296	730	669
Liabilities					
Current liabilities					
Trade payables		686	356	23	11
Current income tax payable		18	13	1	-
Other than income taxes payable	16	143	134	5	4
Short-term borrowings	14	5,459	6,058	178	201
Advances received and other current liabilities	15	1,242	580	41	19
Total current liabilities		7,548	7,141	248	235
Non-current liabilities					
Long-term borrowings	14	3,713	3,448	122	114
Deferred tax liability	27	895	767	29	25
Retirement benefit obligations	17	209	176	7	6
Total non-current liabilities		4,817	4,391	158	145
Total liabilities		12,365	11,532	406	380
Equity					
Capital and reserves attributable to equity holders of the Company					
Share capital	18	642	642	21	21
Treasury shares	18	(1,089)	(1,049)	(36)	(35)
Foreign currency translation reserve		(56)	(16)	(2)	(1)
Retained earnings		10,236	9,095	336	301
		9,733	8,672	319	286
Non-controlling interests		160	92	5	3
Total equity		9,893	8,764	324	289
Total liabilities and equity		22,258	20,296	730	669

 Approved for issue and signed on behalf of Board of Directors on
30 April 2011

 V.I. Gerasimenko
General Director

 L.I. Kudasheva
Chief Accountant



Consolidated statement of comprehensive income

for the year ended 31 December 2010

(in millions of Russian Roubles, unless otherwise stated)

	Note	Year ended 31 December		Supplementary information US\$ million (Note 2) Year ended 31 December	
		2010	2009	2010	2009
Sales	19	22,454	17,114	739	539
Cost of sales	20	(16,101)	(12,558)	(530)	(396)
Gross profit		6,353	4,556	209	143
Distribution costs	21	(2,496)	(2,363)	(82)	(74)
General and administrative expenses	22	(1,507)	(1,228)	(50)	(39)
Other operating income	23	203	270	7	9
Other operating expenses	24	(142)	(101)	(5)	(3)
Operating profit		2,411	1,134	79	36
Finance income	25	177	40	6	1
Finance costs	26	(634)	(794)	(21)	(25)
Income from associates		9	5	-	-
Profit before income tax		1,963	385	64	12
Income tax expense	27	(599)	(41)	(20)	(1)
Profit for the year		1,364	344	44	11
Other comprehensive loss					
Foreign currency translation reserve		(40)	(24)	(1)	(1)
Other comprehensive loss for the year, net of taxes		(40)	(24)	(1)	(1)
Total comprehensive income for the year, net of taxes		1,324	320	43	10
Profit attributable to:					
Equity holders of the Company		1,296	293	42	9
Non-controlling interests		68	51	2	2
		1,364	344	44	11
Total comprehensive income attributable to:					
Equity holders of the Company		1,256	269	41	8
Non-controlling interests		68	51	2	2
		1,324	320	43	10



Consolidated statement of changes in equity

for the year ended 31 December 2010

(in millions of Russian Roubles, unless otherwise stated)

	Attributable to equity holders of the Company						Total equity
	Share capital	Treasury shares (Note 18)	Foreign currency translation reserve	Retained earnings	Total	Non-controlling interests	
Balance at 31 December 2008	642	(1,048)	8	8,879	8,481	41	8,522
Profit for the year	-	-	-	293	293	51	344
Other comprehensive loss	-	-	(24)	-	(24)	-	(24)
Total comprehensive income/(loss) for 2009	-	-	(24)	293	269	51	320
Purchase of treasury shares (Note 18)	-	(2)	-	-	(2)	-	(2)
Disposal of treasury shares (Note 18)	-	1	-	1	2	-	2
Dividends declared	-	-	-	(78)	(78)	-	(78)
Balance at 31 December 2009	642	(1,049)	(16)	9,095	8,672	92	8,764
Profit for the year	-	-	-	1,296	1,296	68	1,364
Other comprehensive loss	-	-	(40)	-	(40)	-	(40)
Total comprehensive income/(loss) for 2010	-	-	(40)	1,296	1,256	68	1,324
Purchase of treasury shares (Note 18)	-	(40)	-	-	(40)	-	(40)
Dividends declared	-	-	-	(155)	(155)	-	(155)
Balance at 31 December 2010	642	(1,089)	(56)	10,236	9,733	160	9,893
Supplementary information US\$ million (Note 2)	Share capital	Treasury shares (Note 18)	Foreign currency translation reserve	Retained earnings	Total	Non-controlling interests	Total equity
Balances as of 31 December 2009	21	(35)	(1)	301	286	3	289
Balances as of 31 December 2010	21	(36)	(2)	336	319	5	324



Consolidated statement of cash flows

for the year ended 31 December 2010

(in millions of Russian Roubles, unless otherwise stated)

	Note	Year ended 31 December		Supplementary information US\$ million (Note 2) Year ended 31 December	
		2010	2009	2010	2009
Cash flows from operating activities					
Profit before income tax		1,963	385	64	12
Adjustments for:					
Depreciation of property, plant and equipment	11	1,300	1,171	42	37
Retirement benefit obligations	17	33	17	1	-
Impairment of receivables	22	(7)	21	-	1
Share of income from associates		(9)	(5)	-	-
Interest on promissory notes	23	(81)	(150)	(3)	(5)
Finance income		(87)	(40)	(3)	(1)
Finance costs		634	713	21	23
Foreign exchange effect on non-operating balances – net		130	110	4	3
Operating cash flows before working capital changes		3,876	2,222	126	70
Increase in accounts receivable and prepayments		(245)	(40)	(8)	(1)
Increase in inventories		(1,413)	(492)	(47)	(17)
Increase/(decrease) in accounts payable and other payables		985	(302)	32	(10)
Increase in other than income taxes payable		9	6	-	-
Cash generated from operations		3,212	1,394	103	42
Income taxes (paid)/refunded		(464)	90	(16)	3
Interest received		84	31	1	1
Interest paid		(768)	(899)	(25)	(28)
Net cash generated from operating activities		2,064	616	63	18
Cash flows from investing activities:					
Purchase of property, plant and equipment		(1,345)	(1,152)	(43)	(36)
Proceeds from the sale of property, plant and equipment		113	40	3	1
Income from associate		9	5	-	-
Acquisition of intangible assets		7	9	-	-
Purchase of long-term financial assets		-	(6)	-	-
Disposal of long-term financial assets		43	-	1	-
Purchase of short-term financial assets		(123)	-	(4)	-
Disposal of short-term financial assets		-	97	-	3
Net cash used in investing activities		(1,296)	(1,007)	(43)	(32)
Cash flows from financing activities:					
Proceeds from short-term borrowings		5,913	8,943	196	283
Proceeds from long-term borrowings		2,791	414	92	13
Repayments of borrowings		(9,139)	(8,134)	(298)	(256)
Purchase of treasury shares	18	(40)	(2)	(1)	-
Proceeds from disposal of treasury shares		-	2	-	-
Dividends paid	18	(188)	(242)	(6)	(8)
Net cash (used in)/generated from financing activities		(663)	981	(17)	32
Effect of exchange rate changes on cash and cash equivalents		-	20	-	1
Net increase in cash and cash equivalents		105	610	3	19
Cash and cash equivalents at the beginning of the year	8	1,738	1,128	57	38
Cash and cash equivalents at the end of the year	8	1,843	1,738	60	57

The accompanying notes on pages 7 to 35 are an integral part of these consolidated financial statements.



Notes to the consolidated financial statements

for the year ended 31 December 2010

(in millions of Russian Roubles, unless otherwise stated)

1 The Group and its operations

Open Joint Stock Company "KuibyshevAzot" ("the Company" or JSC "KuibyshevAzot") and its subsidiaries' ("the Group") principal activities include the manufacture, distribution and sales of caprolactam and its derivatives, nitrogen fertilisers and ammonia and other chemical products. The Group's manufacturing facilities are primarily based in the Samarskaya oblast of Russia.

JSC "KuibyshevAzot" was incorporated as a closed joint stock company in the Russian Federation on 24 December 1992. During privatisation in 1992 management of the Company and its employees received shares in accordance with the Law on Privatisation of State and Municipal organisations #1531-1 dated 3 July 1992. During 2006 the Company changed its legal form from "Closed Joint Stock Company" to "Open Joint Stock Company" based on the decision made on the annual shareholders meeting held on 21 April 2006.

As at 31 December 2010 a limited liability company OOO "Kuibyshevazot Plus" holds a blocking shareholding of 29% of total share capital of the Company (31 December 2009: 28%). During 2005 OOO "Kuibyshevazot Plus" was established by management of the Company by contribution of their shares in the Company as satisfaction for share capital of OOO "Kuibyshevazot Plus".

The registered office of the Company is Novozavodskaya ul., 6, Togliatti, 445007, Samarskaya oblast, Russian Federation.

2 Basis of preparation and significant accounting policies

2.1 Basis of preparation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). Most of the Group companies maintain their accounting records in Russian Rouble ("RR") and prepare their statutory financial statements in accordance with the Regulations on Accounting and Reporting of the Russian Federation. These consolidated financial statements are based on the statutory records, with adjustments and reclassifications recorded for the purpose of fair presentation in accordance with IFRS. The consolidated financial statements are presented in Russian Roubles and all values are rounded to the nearest million except when otherwise indicated.

The consolidated financial statements have been prepared under the historical cost convention, except as stated in the accounting policies below. The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated (refer to Note 4, Adoption of New or Revised Standards and Interpretations).

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 3.

2.2 Consolidation

(a) Subsidiaries

Subsidiaries are those companies in which the Group, directly or indirectly, has an interest of more than one half of the voting rights or otherwise has power to govern the financial and operating policies so as to obtain economic benefits. The existence and effect of potential voting rights that are presently exercisable or presently convertible are considered when assessing whether the Group controls another entity. Subsidiaries are consolidated from the date on which control is transferred to the Group (or the date of establishment) and are no longer consolidated from the date that control ceases.

Intercompany transactions, balances, unrealised gains on transactions between group companies and dividends are eliminated; unrealised losses are also eliminated unless the cost cannot be recovered. The Company and all of its subsidiaries use uniform accounting policies consistent with the Group's policies.



Notes to the consolidated financial statements

as at 31 December 2010

*(in millions of Russian Roubles, unless otherwise stated)***2 Basis of preparation and significant accounting policies (continued)****2.2 Consolidation (continued)**

Prior to 1 January 2010 the purchase method of accounting was used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition was measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination were measured initially at their fair values at the acquisition date, irrespective of the extent of any non-controlling interests. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired was recorded as goodwill. If the cost of acquisition was less than the fair value of net assets of the subsidiary acquired, the difference was recognised directly in the consolidated statement of comprehensive income.

From 1 January 2010 business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree. If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability, will be recognised in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it should not be remeasured until it is finally settled within equity.

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

(b) Non-controlling interests

Non-controlling interests represent the portion of profit or loss and net assets not attributable to the equity holders of the Company and are presented separately in the statement of comprehensive income and within equity in the consolidated statement of financial position, separately from parent shareholders' equity. Acquisitions of non-controlling interests are accounted for using the entity method, whereby, the difference between the consideration and the book value of the share of the net assets acquired is recognised in equity.

From 1 January 2010 losses within a subsidiary are attributed to the non-controlling interest even if that results in a deficit balance. Prior to 1 January 2010 losses incurred by the Group were attributed to the non-controlling interest until the balance was reduced to nil. Any further excess losses were attributed to the parent, unless the non-controlling interest had a binding obligation to cover these. Losses prior to 1 January 2010 were not reallocated between the non-controlling interest and the parent shareholders.



Notes to the consolidated financial statements

as at 31 December 2010

(in millions of Russian Roubles, unless otherwise stated)

2 Basis of preparation and significant accounting policies (continued)

2.2 Consolidation (continued)

(c) Associates

Associates are entities over which the Group has significant influence, but not control, generally accompanying a shareholding of between 20 and 50 percent of the voting rights. Investments in associates are accounted for by the equity method of accounting and are initially recognized at cost. The Group's share of the post-acquisition profits or losses of associates is recorded in the consolidated statement of comprehensive income, and its share of post-acquisition movements in equity is recognised within the Group's equity.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

After application of the equity method, the Group determines whether it is necessary to recognise an additional impairment loss on the Group's investment in its associate. The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount in the 'share of profit of an associate' in the statement of comprehensive income.

2.3 Segment reporting

The Group voluntarily chosen to prepare segment disclosure in accordance with IFRS 8 that is effective for annual periods beginning on or after 1 January 2009. The disclosures are shown in Note 6 Operating Segment Information.

2.4 Foreign currency transaction

Functional and presentation currency

Functional currency of each of the Group's consolidated entities is the currency of the primary economic environment in which the entity operates. The Company's functional currency and the Group's presentation currency is the national currency of the Russian Federation, Russian Roubles ("RR").

Supplementary information

In addition to presenting these consolidated financial statements in Russian roubles, supplementary information in US dollars (US\$) has been prepared for the convenience of users of these consolidated financial statements. The method used to determine the supplementary information is as follows:

- (i) all items in the statement of financial position, including all components of equity, are translated at the closing rate for each statement of financial position presented.
- (ii) income and expenses have been translated using the average rate of exchange for each year presented.

The Company has converted the financial information into US\$ by translating all items in the statement of financial position, including all components of equity, using the closing rate. Such conversion is not in accordance with IFRS as translation differences resulting from translating opening net assets using the prior year closing rate has not been presented separately within other comprehensive income.

The relevant exchange rates of the RR to US\$ 1 as quoted by the Central Bank of the Russian Federation (CBRF) were as follows:

	RR per US\$
Average for the year ended December 31, 2009	31.7231
December 31, 2009	30.2442
Average for the year ended December 31, 2010	30.3689
December 31, 2010	30.4769

The translation of RR denominated assets and liabilities into US\$ for the purpose of these consolidated financial statements does not indicate that the Group could or will in the future realize or settle in US\$ the translated values of these assets and liabilities.



KuibyshevAzot Group

Notes to the consolidated financial statements

as at 31 December 2010

(in millions of Russian Roubles, unless otherwise stated)

2 Basis of preparation and significant accounting policies (continued)

2.4 Foreign currency transaction (continued)

Transactions and balances

Monetary assets and liabilities are translated into each entity's functional currency at the official exchange rate of the CBRF at the respective reporting dates. Foreign exchange gains and losses resulting from the settlement of the transactions and from the translation of monetary assets and liabilities into each entity's functional currency at year-end official exchange rates of the CBRF are recognised in profit or loss. Translation at year-end rates does not apply to non-monetary items, including equity investments.

Group companies

The assets and liabilities of foreign subsidiaries of the Company are translated into RR at the rate of exchange prevailing at the reporting date and their statements of comprehensive income are translated at exchange rates prevailing at the date of the transactions. The exchange differences arising on the translation are recognised in other comprehensive income. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the statement of comprehensive income.

2.5 Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, and other short-term highly liquid investments like bank promissory notes with original maturities of three months or less. Cash and cash equivalents are carried at amortised cost using the effective interest method.

2.6 Accounts receivable

Accounts receivable are carried at amortised cost using the effective interest method. Accounts receivable are shown including VAT. An impairment of receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The impairment is recognised in the statement of comprehensive income within 'general and administrative expenses'.

2.7 Value added tax

The Russian tax legislation permits settlement of value added tax ("VAT") on a net basis by deducting VAT on purchases, which have been occurred at the reporting date, from the VAT payable.

Value added tax payable

VAT is payable upon invoicing and delivery of goods, performing works or rendered services, as well as upon collection of prepayments from customers.

Where a provision has been made for the impairment of receivables, impairment loss is recorded for the gross amount of the debtor, including VAT.

Value added tax recoverable

The Group applies accrual method for VAT recognition. VAT on purchases, even not settled at the reporting date, is deducted from the amount of VAT payable.

VAT on construction in progress which cannot be claimed at the reporting date is recorded as VAT receivable and will be netted off with VAT payable at the moment when the assets are put in operation or construction is recorded in the statutory accounting records.

VAT on purchases related to export sales can be reimbursed at the moment when export is confirmed by tax authorities.



Notes to the consolidated financial statements

as at 31 December 2010

*(in millions of Russian Roubles, unless otherwise stated)***2 Basis of preparation and significant accounting policies (continued)****2.8 Inventories**

Inventories are recorded at the lower of cost and net realisable value. Cost of inventory is determined on the weighted average basis. The cost of finished goods and work in progress comprises raw material, direct labour, other direct costs and related production overhead (based on normal operating capacity) but excludes borrowing costs and administrative overheads. Net realisable value is the estimated selling price in the ordinary course of business, less the cost of completion and selling expenses.

2.9 Financial assets

Initial recognition of financial instruments. Trading investments are initially recorded at fair value. All other financial assets and liabilities are initially recorded at fair value plus transaction costs. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets.

All purchases and sales of financial assets that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recorded at trade date, which is the date that the Group commits to deliver a financial asset. All other purchases and sales are recognised on the settlement date with the change in value between the commitment date and settlement date not recognised for assets carried at cost or amortised cost; recognised in profit or loss for trading investments; and recognised in equity for assets classified as available for sale.

Derecognition of financial assets. The Group derecognises financial assets when (i) the assets are redeemed or the rights to cash flows from the assets have otherwise expired or (ii) the Group has transferred substantially all the risks and rewards of ownership of the assets or (iii) the Group has neither transferred nor retained substantially all risks and rewards of ownership but has not retained control. Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the sale.

Available-for-sale investments. Available-for-sale investments are carried at fair value. Interest income on available for sale debt securities is calculated using the effective interest method and recognised in profit or loss. Dividends on available-for-sale equity instruments are recognised in profit or loss when the Group's right to receive payment is established. All other elements of changes in the fair value are deferred in equity until the investment is derecognised or impaired at which time the cumulative gain or loss is removed from equity to profit or loss.

Impairment losses are recognised in profit or loss when incurred as a result of one or more events ("loss events") that occurred after the initial recognition of available-for-sale investments. A significant or prolonged decline in the fair value of an equity security below its cost is an indicator that it is impaired. The cumulative impairment loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that asset previously recognised in profit or loss – is removed from equity and recognised in profit or loss. Impairment losses on equity instruments are not reversed through profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through current period's profit or loss.

Trading investments. Trading investments are carried at fair value. Dividend and interest income from trading investments is recognised in the statement of comprehensive income as part of other income within income from trading investments when the Group's right to receive payments is established. All other elements of the changes in the fair value and gains or losses on derecognition are recorded in profit or loss as gains less losses from trading investments in the period in which they arise.



Notes to the consolidated financial statements

as at 31 December 2010

(in millions of Russian Roubles, unless otherwise stated)

2 Basis of preparation and significant accounting policies (continued)

2.10 Property, plant and equipment

Property, plant and equipment are recorded at cost less accumulated depreciation and provision for impairment, where required. Cost includes borrowing costs incurred on specific or general funds borrowed to finance construction of qualifying assets.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the statement of comprehensive income during the financial period in which they are incurred.

Depreciation on property, plant and equipment is calculated using the straight-line method. The depreciation periods, which approximate to the estimated useful economic lives of the respective assets, as follows:

	<u>Number of years</u>
Buildings	40 to 50
Plant and equipment	10 to 20
Other (office equipment and motor vehicles)	5 to 10

The assets' useful lives are reviewed, and adjusted if appropriate, at each reporting date. The residual value of fixed assets is annually assessed by management.

The residual value of an asset is the estimated amount that the Group would currently obtain from disposal of the asset less the estimated costs of disposal, if the asset was already of the age and in the condition expected at the end of its useful life. The residual value of an asset is nil if the Group expects to use the asset until the end of its physical life.

Assets under construction and land owned by the Group are not depreciated.

At each reporting date the management assesses whether there is any indication of impairment of property, plant and equipment. If any such indication exists, the management estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount and the impairment loss is recognised in the statement of comprehensive income. An impairment loss recognised for an asset in prior years is reversed if there has been a change in the estimates used to determine the asset's value in use or fair value less costs to sell.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the statement of comprehensive income.

2.11 Finance leases

The Group leases certain equipment. Leases of equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments.

Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in borrowings. The interest element of the finance cost is charged to the statement of comprehensive income over the lease period using the effective interest method. The equipment acquired under finance leases is depreciated over the shorter of the useful life of the asset or the lease term.

2.12 Intangible assets

All of the Group's intangible assets, other than goodwill, have definite useful lives and primarily include capitalised computer software. They are capitalised on the basis of the costs incurred to acquire and bring them to use. Intangible assets are amortised using the straight-line method over their useful lives.



Notes to the consolidated financial statements

as at 31 December 2010

*(in millions of Russian Roubles, unless otherwise stated)***2 Basis of preparation and significant accounting policies (continued)****2.13 Borrowings**

Borrowings are recognised initially at their fair value (which is determined using the prevailing market rate of interest for a similar instrument, if significantly different from the transaction price), net of transaction costs incurred. In subsequent periods, borrowings are stated at amortised cost using the effective interest rate method; any difference between fair value of the proceeds (net of transaction costs) and the redemption amount is recognised as interest expense over the period of the borrowings using the effective interest method.

Interest costs on borrowings to finance the construction of property, plant and equipment are capitalised, during the period of time that is required to complete and prepare the asset for its intended use. All other borrowing costs are expensed. Accrued interest is recorded within the relevant borrowing.

2.14 Income taxes*Current income tax*

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date.

Deferred income tax

Deferred income tax is provided using the liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred income tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries and associates, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

2.15 Share capital and treasury shares

Ordinary and non-redeemable preference shares with discretionary dividends are classified as equity.

Where the Company or its subsidiaries purchases the Company's shares, the consideration paid, including any attributable transaction costs, net of income taxes, is deducted from equity as treasury shares until they are sold or reissued. No gain or loss is recognized in the statement of comprehensive income on the purchase, sale, issue or cancellation of the Group's own equity instruments. Where such shares are subsequently sold or reissued, any consideration received is included in equity. Treasury shares are recorded at weighted average cost.

2.16 Dividend distribution

Dividends are recognised as a liability and deducted from equity at the reporting date only if they are declared before or on the reporting date. Dividends are disclosed when they are proposed before the reporting date or proposed or declared after the reporting date but before the financial statements are authorised for issue.



Notes to the consolidated financial statements

as at 31 December 2010

*(in millions of Russian Roubles, unless otherwise stated)***2 Basis of preparation and significant accounting policies (continued)****2.17 Revenue recognition**

Revenue from sales of chemical products is the fair value of the consideration received or receivable for the sale of goods in the ordinary course of the Group's activities. Revenue is shown net of value-added tax, returns, rebates and discounts and after elimination of sales within the Group.

Revenues from sales of goods are recognised at the point of transfer of risks and rewards of ownership of the goods, normally when the goods are shipped. If the Group agrees to transport goods to a specified location, revenue is recognised when the goods are passed to the customer at the destination point.

2.18 Employee benefits***Social costs***

Wages, salaries, contributions to the Russian Federation state pension and social insurance funds, paid annual leave and sick leave and bonuses are accrued in the year in which the associated services are rendered by the employees of the Group.

The Group incurs employee costs related to the provision of short-term non-monetary benefits such as health services and recreation facilities. These amounts principally represent an implicit cost of employees and, accordingly, have been charged to other operating expenses in the consolidated statement of comprehensive income.

Pension costs

In the normal course of business the Group contributes to the Russian Federation state pension scheme on behalf of its employees. Mandatory contributions to the governmental pension scheme are expensed when incurred.

The Group operates an unfunded defined benefit pension plan. A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors, such as age, years of service and compensation. The liability recognised in the statement of financial position in respect of the defined benefit pension plans is the present value of the defined benefit obligation at the reporting date together with adjustments for unrecognised actuarial gains or losses and unrecognised past service cost. The defined benefit obligation is calculated annually using the projected unit credit method. In accordance with IAS 19, the cost of providing pensions is charged to the statement of comprehensive income so as to spread the regular cost over the service lives of employees in line with the terms of the plan. The pension obligation is measured as the present value of the discounted estimated future pension payments together with adjustments for unrecognised actuarial gains and losses. The rate used to discount post-employment benefit obligations is determined by reference to market yields at the reporting date on high quality bonds. The currency and term of these bonds is consistent with the currency and estimated term of the post-employment benefit obligations. The part of the actuarial gains and losses exceeding 10% of defined benefit obligation, is amortised over the remaining service life of the company's employees, starting from the next reporting year.

2.19 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Group expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

3 Critical accounting estimates and judgements in applying accounting policies

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. The estimates and judgements are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies. Judgements that have the most significant effect on the amounts recognised in financial information and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:



Notes to the consolidated financial statements

as at 31 December 2010

*(in millions of Russian Roubles, unless otherwise stated)***3 Critical accounting estimates and judgements in applying accounting policies (continued)**

Remaining useful life of property, plant and equipment. Management assesses the remaining useful life of property, plant and equipment in accordance with the current technical conditions of assets and estimated period when these assets will bring economic benefit to the Group.

If the estimated remaining useful life of buildings had been 10% higher or lower than management estimates, then the carrying value of buildings would be RR 173 higher or RR 281 lower accordingly. If the estimated remaining useful life of plant and equipment had been 10% higher or lower than management estimates, then the carrying value of plant and equipment would be RR 382 higher or RR 521 lower accordingly.

Estimated impairment of property, plant and equipment. The Group assesses annually whether any indicators of impairment of the property, plant and equipment exist, in accordance with the accounting policy stated in Note 2.10. If there are indicators of impairment, the Group determines recoverable amounts of cash generating units, based on value-in-use calculations. These calculations require the use of estimates.

Tax legislation. Russian tax, currency and customs legislation is subject to varying interpretations. Refer to Note 28.3.

Pension obligations. Post-employment benefits are generally satisfied by plans which are classified and accounted for as defined benefit plans. The present value of defined post-employment benefit obligations and related current service cost are determined in accordance with actuarial valuation, which rely on demographic and financial assumptions including mortality, both during and after employment, rates of employee turnover, discount rate, future salary and benefit levels. In the event that further changes in the key assumptions are required, the future amounts of the pension benefit costs may be affected materially. More details are provided in Note 17.

4 Adoption of new or revised standards and interpretations

The accounting policies adopted are consistent with those of the previous financial year except the following. The Group has adopted the following new and amended IFRS and IFRIC interpretations as of 1 January 2010:

IFRS 2 *Share-based Payment: Group Cash-settled Share-based Payment Transactions* effective 1 January 2010; IFRS 3 *Business Combinations (Revised)* and IAS 27 *Consolidated and Separate Financial Statements (Amended)* effective 1 July 2009, including consequential amendments to IFRS 2, IFRS 5, IFRS 7, IAS 7, IAS 21, IAS 28, IAS 31 and IAS 39; IAS 39 *Financial Instruments: Recognition and Measurement – Eligible Hedged Items* effective 1 July 2009; IFRIC 17 *Distributions of Non-cash Assets to Owners* effective 1 July 2009.

IFRS 2 Share-based Payment (Revised)

The IASB issued an amendment to IFRS 2 that clarified the scope and the accounting for group cash-settled share-based payment transactions. The Group adopted this amendment as of 1 January 2010. It did not have an impact on the financial position or performance of the Group.

IFRS 3 Business Combinations (Revised) and IAS 27 Consolidated and Separate Financial Statements (Amended)

IFRS 3 (Revised) introduces significant changes in the accounting for business combinations occurring after becoming effective. Changes affect the valuation of non-controlling interest, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. These changes will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs and future reported results.

IAS 27 (Amended) requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as a transaction with owners in their capacity as owners. Therefore, such transactions will no longer give rise to goodwill, nor will it give rise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. The changes by IFRS 3 (Revised) and IAS 27 (Amended) affect acquisitions or loss of control of subsidiaries and transactions with non-controlling interests after 1 January 2010.

The change in accounting policy was applied prospectively.



Notes to the consolidated financial statements

as at 31 December 2010

*(in millions of Russian Roubles, unless otherwise stated)***4 Adoption of new or revised standards and interpretations (continued)*****IAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items***

The amendment clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as a hedged item. This also covers the designation of inflation as a hedged risk or portion in particular situations. The Group has concluded that the amendment will have no impact on the financial position or performance of the Group, as the Group has not entered into any such hedges.

IFRIC 17 Distribution of Non-cash Assets to Owners

This interpretation provides guidance on accounting for arrangements whereby an entity distributes non-cash assets to shareholders either as a distribution of reserves or as dividends. The interpretation has no effect on either, the financial position nor performance of the Group.

5 New accounting pronouncements

The Group has not applied the following standards and IFRIC interpretations that have been issued but are not yet effective:

IAS 24 Related Party Disclosures (Amendment)

The amended standard is effective for annual periods beginning on or after 1 January 2011. It clarified the definition of a related party to simplify the identification of such relationships and to eliminate inconsistencies in its application. The revised standard introduces a partial exemption of disclosure requirements for government-related entities. The Group does not expect any impact on its financial position or performance. Early adoption is permitted for either the partial exemption for government-related entities or for the entire standard.

IAS 32 Financial Instruments: Presentation – Classification of Rights Issues (Amendment)

The amendment to IAS 32 is effective for annual periods beginning on or after 1 February 2010 and amended the definition of a financial liability in order to classify rights issues (and certain options or warrants) as equity instruments in cases where such rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, or to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency. This amendment will have no impact on the Group after initial application.

IFRS 9 Financial Instruments: Classification and Measurement

IFRS 9 as issued reflects the first phase of the IASBs work on the replacement of IAS 39 and applies to classification and measurement of financial assets and liabilities as defined in IAS 39. The standard is effective for annual periods beginning on or after 1 January 2013. In subsequent phases, the IASB will address classification and measurement of hedge accounting and derecognition. The completion of this project is expected in 2011. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the Group's financial assets and liabilities. The Group will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture.

IFRIC 14 Prepayments of a minimum funding requirement (Amendment)

The amendment to IFRIC 14 is effective for annual periods beginning on or after 1 January 2011 with retrospective application. The amendment provides guidance on assessing the recoverable amount of a net pension asset. The amendment permits an entity to treat the prepayment of a minimum funding requirement as an asset. The amendment have no impact on the financial statements of the Group.

IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments

IFRIC 19 is effective for annual periods beginning on or after 1 July 2010. The interpretation clarifies that equity instruments issued to a creditor to extinguish a financial liability qualify as consideration paid. The equity instruments issued are measured at their fair value. In case that this cannot be reliably measured, the instruments are measured at the fair value of the liability extinguished. Any gain or loss is recognized immediately in profit or loss. The adoption of this interpretation will have no effect on the financial statements of the Group.

Improvements to IFRSs (issued in May 2010)

In May 2010 the IASB issued amendments to the following standards and interpretation, including transitional provisions. Unless otherwise noted, the proposed effective date for the amendments is for annual periods beginning on or after 1 January 2011.

IFRS 1 First-time Adoption of International Financial Reporting Standards - Accounting policy changes in the year of Adoption; Revaluation basis as deemed cost; Use of deemed cost for operations subject to rate regulation;



Notes to the consolidated financial statements

as at 31 December 2010

*(in millions of Russian Roubles, unless otherwise stated)***5 New accounting pronouncements (continued)**

IFRS 3 Business Combinations - Transition requirements for contingent consideration from a business combination that occurred before the effective date of the revised IFRS; Measurement of non-controlling interests; Un-replaced and voluntarily replaced share-based payment awards (applicable to annual periods beginning on or after 1 July 2010);

IFRS 7 Financial Instruments: Disclosures - Clarifications of disclosures;

IAS 1 Presentation of Financial Statements - Clarification of statement of changes in equity;

IAS 27 Consolidated and Separate Financial Statements - Transition requirements for amendments made as a result of IAS 27 Consolidated and Separate Financial Statements (applicable to annual periods beginning on or after 1 July 2010);

IAS 34 Interim Financial Reporting - Significant events and transactions;

IFRIC 13 Customer Loyalty Programmes - Fair value of award credit.

The Group expects no impact from the adoption of the amendments on its financial position or performance.

Amendments to IFRS 7 Financial Instruments: Disclosures

The IASB issued *Amendments to IFRS 7 Financial Instruments: Disclosures* to enhance the transparency of disclosure requirements for the transfer of financial assets. The effective date will be annual periods beginning on or after 1 July 2011 and comparative disclosures are not required for any period beginning before that date. The amendments will assist users to understand the implications of transfers of financial assets and the potential risks that may remain with the transferor. The Amendments will introduce more extensive and onerous quantitative and qualitative disclosure requirements.

Amendments to IFRS 1 First-time adoption of International Financial Reporting Standards

The IASB issued Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters (Amendments to IFRS 1). An entity must apply the amendments for annual periods beginning on or after 1 July 2011. These amendments to *IFRS 1 First-time adoption of International Financial Reporting Standards* introduce a new deemed cost exemption for entities that have been subject to severe hyperinflation. They also remove the legacy fixed dates in IFRS 1 relating to derecognition and day one gain or loss transactions. This amendment will have no impact on the Group financial statements.

Amendments to IAS 12 Income taxes

The IASB issued amendments to IAS 12 *Deferred Tax: Recovery of Underlying Assets*. These amendments address the determination of deferred tax on investment property measured at fair value. This issue amendments introduce a rebuttable presumption that deferred tax on investment property measured at fair value should be determined on the basis that the carrying amount will be recovered through sale. The amendments also incorporate SIC-21 Income Taxes - Recovery of Revalued Non-Depreciable Assets into IAS 12. This amendment will have no impact on the Group financial statements.

6 Operating segment information

For management purposes, the Group is organised into business units based on their products lines, and has the following reportable operating segments:

- (1) Production and sale of caprolactam and derivatives;
- (2) Production and sale of ammonia and nitrogen fertilisers.

Unallocated activities includes activities of the Company that do not relate to chemical production and subsidiaries' activities. Group financing and income taxes are managed on a group basis and are not allocated to operating segments.

Management monitors operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on management accounts, which in a number of respects, as explained in the table below, differs from the consolidated financial statements.

Transactions between the business segments are done on normal commercial terms and conditions.



Notes to the consolidated financial statements

as at 31 December 2010

(in millions of Russian Roubles, unless otherwise stated)

6 Operating segment information (continued)

The following tables present revenue, profit, assets and liabilities information regarding the Group's operating segments:

Year ended 31 December	Caprolactam and derivatives		Ammonia and nitrogen fertilisers		Unallocated/ Elimination		Total	
	2010	2009	2010	2009	2010	2009	2010	2009
Sales	14,768	10,231	5,547	4,841	2,139	2,042	22,454	17,114
Segment operating (loss)/profit for the period	1,182	(303)	1,253	1,194	554	795	2,989	1,686
IFRS adjustments								
Difference in depreciation of fixed assets							(579)	(469)
Provision for pension obligation							(33)	(17)
Others							34	(66)
IFRS operating profit for the period							2,411	1,134

Difference in depreciation of fixed assets relates to different useful life period of fixed assets in management accounts and IFRS accounts.

Unallocated amount relates mainly to activities of subsidiaries.

At 31 December	Caprolactam and derivatives		Ammonia and nitrogen fertilisers		Unallocated/ Elimination		Total	
	2010	2009	2010	2009	2010	2009	2010	2009
Segment assets	9,508	9,045	3,408	2,913	8,857	7,367	21,773	19,325
IFRS adjustments:								
Difference in depreciation of fixed assets							601	1,253
Impairment of the Group's assets							(57)	(227)
Others							(59)	(55)
IFRS total assets							22,258	20,296

Unallocated amounts relate mainly to assets of subsidiaries.

At 31 December	Caprolactam and derivatives		Ammonia and nitrogen fertilisers		Unallocated/ Elimination		Total	
	2010	2009	2010	2009	2010	2009	2010	2009
Segment liabilities	214	140	171	379	11,573	10,496	11,958	11,015
IFRS adjustments:								
Pension obligation							209	176
Finance lease							41	137
Deferred tax							240	284
Others							(83)	(80)
IFRS total liabilities							12,365	11,532

Unallocated amounts relate mainly to borrowings of RR 9,172 (2009: RR 9,506) and liabilities of subsidiaries.



Notes to the consolidated financial statements

as at 31 December 2010

(in millions of Russian Roubles, unless otherwise stated)

6 Operating segment information (continued)

Geographic information

Sales are allocated based on the country in which the customer is located:

	2010	2009
Asia	8,700	6,963
Russia	7,807	5,918
Europe	3,641	2,282
South America	1,025	768
Other	1,281	1,183
	22,454	17,114

Assets of the Group are mainly located in the Russian Federation.

7 Balances and transactions with related parties

Parties are generally considered to be related if one party has the ability to control the other party, is under common control, or can exercise significant influence in making financial and operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely the legal form. The Company's major shareholders are disclosed in Note 1.

The nature of the related party relationships for those related parties with whom the Group entered into significant transactions for the years ended 31 December 2010 and 2009, or had significant balances outstanding at 31 December 2010 and 2009 is detailed below.

The income and expenses items with related parties for the years 2010 and 2009 were as follows:

Sales of goods and services

	2010	2009
Rental services	8	7
Interest income on loans issued to related parties	12	6
Total	20	13

Purchase of goods and services

	2010	2009
Finance lease charge	84	86
Transportation services	12	13
Interest expense	4	1
Total	100	100

The Group's transactions with associates on sales/purchases of goods and services are done at standard sales list prices.

At 31 December 2010 and 2009, the outstanding balances with related parties were as follows:

	2010	2009
Receivables from associates	2	10
Loans issued	57	90
Lease payable	41	137
Borrowings from related parties	116	108

As at 31 December 2010 loans issued to related parties relate to RR 23 of loans issued to OOO Prominvest at the interest rate of 14%-15.7% (2009: RR 30, interest rate 9%) and loans issued to OOO Chimteco, an associate company, in 2010 amounting to RR 34 at the interest rate of 14% (2009: RR 60, interest rate 14%). OOO Prominvest is considered as a related party as it is owned by member of key management personnel.



Notes to the consolidated financial statements

as at 31 December 2010

(in millions of Russian Roubles, unless otherwise stated)

7 Balances and transactions with related parties (continued)

Borrowings from related parties include a loan amounting to RR 107 (2009: RR 105) obtained from OAO Benzol with a fixed interest rate of 2% per annum (2009: 2%). As at 31 December 2010 the balance also includes loans obtained from other related parties amounted of RR 9 at a fixed interest rate of 0% per annum (2009: RR 3 at 8%).

Lease payable to OOO Prominvest amounting to RR 25 and RR 110 for 2010 and 2009, respectively, has an implicit rate of 13% (2009: 13%). Lease payable to OOO Samara Turbokon, an associate company, amounting to RR 16 (2009: RR 27) has implicit rate of 65% (2009: 65%).

Key management compensation

The remuneration of 19 key management personnel (31 December 2009: 23) amounted to RR 42 and RR 51 in the years 2010 and 2009, respectively. It comprised salaries, discretionary bonuses and other short-term benefits. Statutory social payments made in respect of key management personnel remuneration amounted of RR 2 (2009: RR 6). Dividends paid to key management personnel amounted to RR 33 (2009: RR 81).

8 Cash and cash equivalents

	2010	2009
Short-term promissory notes	1,371	1,246
RR denominated cash on hand and balances with banks	110	319
Foreign currency denominated balances with bank	362	173
	1,843	1,738

Short-term promissory notes are interest-free Sberbank promissory notes, due on demand, which were received from customers as a payment for goods and services provided.

Balances with banks have interest rate of 3-4% in both 2009 and 2010.

Foreign currency denominated balances with bank consist of the following:

Currency	2010	2009
US Dollar	115	115
Yuan	204	35
Euro	39	18
Dinar (Serbia)	4	5

9 Receivables and prepayments

	2010	2009
Trade receivables	1,276	1,082
Less: impairment	(7)	(15)
	1,269	1,067
Other receivables	255	348
Prepayments	695	427
Less: impairment	(6)	(9)
	689	418
VAT recoverable	1,125	1,172
	3,338	3,005

Foreign currency denominated balances of net accounts receivable consist of the following:

Currency	2010	2009
US Dollar	1,275	1,250
Yuan	303	205
Euro	65	60
Dinar (Serbiya)	11	62
	1,654	1,577



Notes to the consolidated financial statements

as at 31 December 2010

(in millions of Russian Roubles, unless otherwise stated)

9 Receivables and prepayments (continued)

Trade receivables are non-interest bearing and are generally on 90 days terms.

Movements in the provision for impairment of receivables were as follows:

	2010	2009
Opening balance	24	4
Charge for the year	-	24
Utilised	(11)	(4)
Closing balance	13	24

There is no concentration of credit risk with respect to trade and other receivables, as the Group has a large number of customers, internationally dispersed. The aging analysis of trade receivables is as follows:

	Below 30 days	31-180 days	Above 181 days	Total
2009	580	795	40	1,415
2010	619	857	48	1,524

10 Inventories

	2010	2009
Raw materials	1,407	944
Work in progress	528	290
Finished products	2,400	1,688
	4,335	2,922

Finished products of RR 2,435 (31 December 2009: RR 1,729) are shown at net realisable value net of impairment of RR 35 (31 December 2009: RR 41).

Inventories of RR 270 (31 December 2009: RR 107) have been pledged as collateral for borrowings (Note 14).

11 Property, plant and equipment

	Land and Buildings	Plant and equipment	Other	Construction in progress	Total
Cost					
Balance at 1 January 2009	4,842	15,967	100	2,587	23,496
Additions	-	-	-	1,802	1,802
Disposals	(12)	(320)	-	(48)	(380)
Transfers from CIP	283	1,253	2	(1,538)	-
Balance at 31 December 2009	5,113	16,900	102	2,803	24,918
Additions	-	-	-	1,580	1,580
Disposals	(35)	(357)	(1)	-	(393)
Transfers from CIP	410	3,028	8	(3,446)	-
Balance at 31 December 2010	5,488	19,571	109	937	26,105
Accumulated depreciation					
Balance at 1 January 2009	(2,286)	(10,350)	(51)	-	(12,687)
Depreciation expense for 2009	(117)	(1,039)	(15)	-	(1,171)
Disposals	3	286	-	-	289
Balance at 31 December 2009	(2,400)	(11,103)	(66)	-	(13,569)
Depreciation expense for 2010	(221)	(1,055)	(24)	-	(1,300)
Disposals	9	318	2	-	329
Balance at 31 December 2010	(2,612)	(11,840)	(88)	-	(14,540)
Net book value					
Balance at 31 December 2009	2,713	5,797	36	2,803	11,349
Balance at 31 December 2010	2,876	7,731	21	937	11,565



Notes to the consolidated financial statements

as at 31 December 2010

(in millions of Russian Roubles, unless otherwise stated)

11 Property, plant and equipment (continued)

At 31 December 2010 equipment carried at RR 7,256 (31 December 2009: RR 9,041) has been pledged to third parties as collateral for bank borrowings and other loans (Note 14).

At 31 December 2010 the cost of the land on which the Group's principle production facilities are situated, amounted to RR 45 (31 December 2009: RR 31).

Borrowing costs capitalised amounted to RR 103 (2009: RR 235). A capitalisation rate of 7% (2009: 11%) was used, representing the borrowing costs of the loans used to finance the investment projects.

Equipment includes the following amounts where the Group is a lessee under a finance lease:

	2010	2009
Cost of capitalized finance leases	182	287
Accumulated depreciation	(134)	(117)
Net book amount	48	170

12 Investments in associates

At 31 December 2010, the Group's interests in its principle associates and their summarised financial information, including total assets, liabilities, revenues and profit or loss, were as follows:

Name	Total assets	Total liabilities	Revenue	Profit	% interest held	Amount of investment	Country of incorporation
OAo Benzol	304	1	-	-	38%	114	Russia
OOO Samara Turbokon	11	3	47	36	25%	41	Russia
OOO MMK Benzol	44	-	-	-	49%	23	Russia
Others						3	Russia
Total						181	

At 31 December 2009, the Group's interest in its principal associates and their summarised financial information, including total assets, liabilities, revenues and profit or loss, were as follows:

Name	Total assets	Total liabilities	Revenue	Profit/(Loss)	% interest held	Amount of investment	Country of incorporation
OAo Benzol	302	-	1	-	38%	114	Russia
OOO Samara Turbokon	11	2	35	26	25%	32	Russia
OOO MMK Benzol	44	-	-	(2)	49%	23	Russia
Others						9	Russia
Total						178	

13 Financial assets

Short term financial assets include:

	2010	2009
Short-term portion housing loans allowed to employees: 8.75%-13%%	145	41
Bills of exchange of third parties	25	23
Short-term loans issued: 9%-14%	17	-
	187	64

Long term financial assets include:

	2010	2009
Long-term housing loans allowed to employees: 8.75%-13%%	205	209
Long-term loans issued: 9%-14%	56	105
Other long term financial assets	30	20
	291	334

Long-term loans to employees have different maturity dates up to the year 2030 (2009: up to 2029).



Notes to the consolidated financial statements

as at 31 December 2010

(in millions of Russian Roubles, unless otherwise stated)

14 Borrowings
Short-term borrowings

	Interest rate	Maturity date	Currency	2010	2009
Sberbank	1.1%-8.75%	2011	RR	1,151	3,906
Sberbank	5.61%	2011	USD	161	543
Sberbank	4.24%	2011	EUR	71	100
ZAO Raiffeisenbank	MOSPRIME +2.32%	2011	RR	396	323
Non-convertible bonds	8.8%	2011	RR	1,111	-
Sviaz-Bank	7.3%-7.4%	2011	RR	727	-
JSC VTB Bank	7.24%	2011	RR	250	-
JSC VTB Bank	5.8%	2011	USD	247	-
ZAO BSGV	7%	2011	RR	59	-
Bank of China	3%	2011	USD	84	-
CREDIT EUROPE BANK Ltd.	14%	2010	RR	-	318
International Finance Corporation	Libor +4.75%	2011	USD	610	91
ZAO Absolut Bank	8.5%	2010	USD	-	189
Loans from related party	2%	2011	RR	107	105
Finance lease liability	13%, 65%	2011	RR	16	22
Gazprombank	7%	2011	RR	349	300
Other		2011	RR	120	161
				5,459	6,058

The Group's short-term borrowings are denominated in currencies as follow:

	2010	2009
Borrowings denominated in:		
- Russian Roubles	4,286	5,135
- US Dollars	1,102	823
- Euros	71	100
	5,459	6,058

Equipment and inventories in the amount of RR 7,526 (2009: RR 9,148) are pledged as collateral for long and short-term borrowings (see notes 10 and 11).

The Group does not apply hedge accounting and has not entered into any hedging arrangements in respect of interest rate exposures.

The Company is subject to restrictive covenants in relation to the loan obtained from International Finance Corporation (IFC), including the limit of borrowings secured by liens on property of the Group and restriction on purchase of treasury shares by the Group. As at 31 December 2010 the Group exceeded the limit of borrowings secured by liens stated in the loan agreement with IFC. The Group purchased treasury shares during 2010. As a result the loan payable to IFC with maturity date in December 2014 was classified as short-term.

Long-term borrowings

	Interest rate	Maturity date	Currency	2010	2009
Non-convertible bonds	8.8%	2011	RR	-	2,000
Sberbank	5.61%-9%	2012-2015	USD	580	199
Sberbank	1.5%-8.54%	2012-2014	EUR	630	754
Sberbank	2%-9.5%	2012-2014	RR	1,738	375
Finance lease liability	13%, 65%	2012-2033	RR	25	115
Raiffeisen bank	MOSPRIME +2.32%	2012	RR	300	-
Raiffeisen bank	Libor +5.5%	2012	USD	142	-
JSC Pervobank	7%-7.5%	2013	USD	289	-
Others			RR	9	5
				3,713	3,448



Notes to the consolidated financial statements

as at 31 December 2010

(in millions of Russian Roubles, unless otherwise stated)

14 Borrowings (continued)

The maturity of long-term borrowings is as follows:

	2010	2009
Current	1,343	1,633
1 to 2 years	936	2,346
2 to 3 years	2,059	405
3 to 5 years	656	90
> 5 years	62	607
	5,056	5,081
Less: Current portion	(1,343)	(1,633)
	3,713	3,448

The Group's long-term borrowings are denominated in currencies as follows:

	2010	2009
Borrowings denominated in:		
- Russian Roubles	2,072	2,495
- Euros	630	754
- US Dollars	1,011	199
	3,713	3,448

In March 2006 OOO Kuibyshevazot-invest issued RR 2,000 non-convertible rouble-denominated bonds with maturity of 5 years in March 2011 at a fixed interest rate (8.8% annual interest rate at the moment of bonds issue). The Company has guaranteed the bonds. The amount of guarantee is RR 2,088. During 2010 the bonds were partly repaid prematurely.

15 Advances received and other current liabilities

	2010	2009
Advances received	886	342
Salaries payable	111	97
Dividends payable	2	35
Other	243	106
	1,242	580

Terms and conditions of the above liabilities:

- Advances received and other current liabilities are non-interest bearing and have an average term of two months.
- For terms and conditions relating to related parties, refer to Note 7.

16 Other taxes payable

	2010	2009
Property tax	64	71
Payments to the Pension Fund and other social taxes	24	18
Personal income tax	11	12
Other taxes	44	33
	143	134

The Group had no tax liabilities past due at 31 December 2010 and 2009.



Notes to the consolidated financial statements

as at 31 December 2010

(in millions of Russian Roubles, unless otherwise stated)

17 Retirement benefit obligations

The Group provides post retirement benefits in the form of a lump sum payment on retirement and monthly cash payments to their retirees via the non-state pension fund "Titan". The benefit amount is dependent on one or more factors, such as age, years of service and compensation. The entitlement to benefits (cash payments) ceases 5 years after retirement date (2009: 3 years after retirement date). To date it has been an unfunded plan, with no assets specifically allocated to cover the scheme liabilities. The scheme's retirement age is the State retirement age (55 for females and 60 for males). The actuarial valuation is performed once in 3 years, the last valuation was performed in December 2010.

The amounts recognised in the statement of financial position as at 31 December 2009 and 31 December 2010 are as follows:

	31 December 2010	31 December 2009
Present value of unfunded obligations	331	260
Unrecognised actuarial loss	(144)	(29)
Unrecognised past service cost	22	(55)
Net liability in statement of financial position	209	176

The amounts recognised in the statement of comprehensive income for years ended December 2009 and 31 December 2010 are as follows:

	31 December 2010	31 December 2009
Current service cost	12	13
Past service cost	7	4
Interest cost	24	11
Total included in actuarial expenses	43	28

Movements in the net liability recognised in the statement of financial position are as follows:

	31 December 2010	31 December 2009
At the beginning of the period	176	159
Total expense as above	43	28
Contributions paid	(10)	(11)
Net liability at the end of the year	209	176

The principal actuarial assumptions used were as follows:

	31 December 2010	31 December 2009
Discount rate	8%	8.8%
Salary increase	8.65%	7.8%
Post retirement benefit increase	6%	6%
Staff turnover up to the age 49 (males) and 44 (females)	5%	5%
Staff turnover from the age 49 (males) and 44 (females) up to the retirement	0%	0%



Notes to the consolidated financial statements

as at 31 December 2010

(in millions of Russian Roubles, unless otherwise stated)

18 Share capital

	Number of issued shares (thousands)		Number of treasury shares (thousands)	Total number of outstanding shares (thousands)	Share capital (In Russian Roubles)	Treasury shares
	Preference	Ordinary				
At 1 January 2009	3,697	237,043	(45,552)	195,188	642	(1,048)
Treasury shares purchased	-	-	(64)	(64)	-	(2)
Treasury shares disposed	-	-	42	42	-	1
At 31 December 2009	3,697	237,043	(45,574)	195,166	642	(1,049)
Treasury shares purchased	-	-	(1,010)	(1,010)	-	(40)
At 31 December 2010	3,697	237,043	(46,584)	194,156	642	(1,089)

The nominal registered amount of the Company's issued share capital is RR 241 (31 December 2009: RR 241).

The total number of authorised ordinary shares is 552,043 thousand shares (31 December 2009: 552,043 thousand) and of preference shares is 138,897 thousand shares (31 December 2009: 138,897 thousand) with a nominal value of 1 rouble per share of both types.

Shares purchased from shareholders are held as 'treasury shares'. At 31 December 2010 OOO Togliattichinvest, OOO Kuibyshevazot-invest and OOO Activinvest held 45,129 thousand ordinary and 1,455 thousand preference shares of the Company. At 31 December 2009 OOO Togliattichinvest, OOO Kuibyshevazot-invest and OOO Activinvest held 44,119 thousand ordinary and 1,455 thousand preference shares of the Company.

Preference shares are non-redeemable, non-cumulative and give the holders the right to participate in the general shareholders' meetings without voting rights except in instances where decisions are made in relation to re-organisation and liquidation of the Company, and where changes and amendments to the Company's charter which restrict the rights of preference shareholders are proposed. The non-cumulative preference shares give holders the right to receive dividends per share of not less than 1% of their nominal value and, in case of liquidation of the Company, they give holders the right to receive liquidation value in the amount of their nominal value. If the Company fails to pay dividends, the preferred shareholders have the right to vote in the general shareholders' meeting, which ceases when dividends on preference shares are paid in full.

The Company cannot declare and pay dividends on ordinary shares if dividends on preference shares are not declared in full.

Dividends declared and paid during the year on ordinary and preference shares were as follows:

	2010	2009
Dividends payable at 1 January	35	199
Dividends declared during the year	155	78
Dividends paid during the year	(188)	(242)
Dividends payable at 31 December	2	35
Dividends per share declared during the year, RR	0.8	0.4

In 2010 the Company declared 0.8 rouble of interim dividends for 2010 per share for both ordinary and preference shares, final dividends for 2009 were not declared (2009: 0.4 rouble of interim dividends, final dividends for 2008 were not declared).

19 Sales

	2010	2009
Caprolactam and derivatives	14,768	10,231
Ammonia and nitrogen fertilisers	5,547	4,841
Other products	2,139	2,042
	22,454	17,114



Notes to the consolidated financial statements

as at 31 December 2010

(in millions of Russian Roubles, unless otherwise stated)

20 Cost of sales

	2010	2009
Materials and components used	10,531	7,888
Heat energy and electricity	2,326	1,935
Labour costs	1,899	1,476
Depreciation	1,179	989
Others	1,116	585
Increase in finished goods and work in progress	(950)	(315)
	16,101	12,558

Repair and maintenance expenses

Repair and maintenance expenses, included in cost of sales consist of the following items:

	2010	2009
Materials and components used	437	292
Services of auxiliary divisions	340	234
Labour	234	235
Third party services	298	180
	1,309	941

21 Distribution costs

	2010	2009
Transportation	2,044	1,996
Labour costs	113	134
Materials	54	58
Depreciation	20	33
Other	265	142
	2,496	2,363

22 General and administrative expenses

	2010	2009
Labour costs	517	492
Services of third parties	231	162
Taxes, other than income tax	192	163
Materials	150	91
Insurance	134	97
Consultancy services	125	25
Depreciation	101	90
Fines and penalties	24	15
Impairment of receivables	(7)	21
Other	40	72
	1,507	1,228

23 Other operating income

	2010	2009
Interest on promissory notes	81	150
Net profit on sales of materials	23	18
Foreign exchange gains on operating activities	2	42
Other	97	60
	203	270



Notes to the consolidated financial statements

as at 31 December 2010

(in millions of Russian Roubles, unless otherwise stated)

24 Other operating expenses

	2010	2009
Social expenses	110	92
Charitable donations	32	8
Other	-	1
	142	101

25 Finance income

	2010	2009
Interest income	87	40
Foreign exchange gains on financing activities	90	-
	177	40

26 Finance costs

	2010	2009
Interest expense	645	886
Finance lease charge	92	59
Foreign exchange loss from financing activities	-	84
Less capitalised borrowing costs	(103)	(235)
Total finance costs recognised in the statement of comprehensive income	634	794

27 Income taxes

	2010	2009
Current income tax expense	471	45
Recalculation of current income tax of prior periods	-	(77)
Deferred tax expenses	128	73
Income tax expense for the year	599	41

Income before taxation for financial reporting purposes is reconciled to tax expense as follows:

	2010	2009
Income before taxation	1,963	385
Theoretical tax charge at statutory rate of 20%	354	(24)
Theoretical tax charge at statutory rate of 25% applicable to Chinese subsidiaries	70	107
Theoretical tax charge at statutory rate of 16.5% on income of Hong Kong subsidiary	17	13
Recalculation of current income tax of prior periods	-	(77)
Tax effect of items which are not deductible or assessable for taxation purposes:		
Non-assessable profit of Hong Kong subsidiary	(17)	(13)
Social expenses	101	31
Non-deductible devaluation of investment	24	-
Other non-deductible expenses	50	4
Income tax expense	599	41



Notes to the consolidated financial statements

as at 31 December 2010

(in millions of Russian Roubles, unless otherwise stated)

27 Income taxes (continued)

Differences between IFRS and Russian statutory taxation regulations give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases. The tax effect of the movements in these temporary differences is detailed below and is recorded at the rate of 20% (2009: 20%).

	1 January 2009	Origination/ (reversal) of temporary difference	31 December 2009	Origination/ (reversal) of temporary difference	31 December 2010
Tax effects of deductible temporary differences:					
Accounts receivable	1	9	10	(7)	3
Finance lease liability	69	-	69	(18)	51
Other long-term assets	21	6	27	54	81
Other	(14)	-	(14)	14	-
Gross deferred tax assets	77	15	92	43	135
Tax effects of taxable temporary differences:					
Property, plant and equipment	(677)	(87)	(764)	(136)	(900)
Inventories	(94)	(1)	(95)	(35)	(130)
Gross deferred tax liability	(771)	(88)	(859)	(171)	(1,030)
Recognized deferred tax liability	(694)	(73)	(767)	(128)	(895)

In the context of the Group's current structure, tax losses and current tax assets of different group companies may not be offset against current tax liabilities and taxable profits of other group companies and, accordingly, taxes may accrue even where there is a consolidated tax loss. Therefore, deferred tax assets and liabilities are offset only when they relate to the same taxable entity.

Deferred tax assets will be realised in different periods than deferred tax liabilities will be settled. Management believes that there will be sufficient taxable profits available at the time the temporary differences reverse to utilise the deferred tax assets.

The Group has not recorded a deferred tax liability in respect of taxable temporary differences of RR 44 (2009: RR 108) associated with investments in subsidiaries as the Group is able to control the timing of the reversal of those temporary differences and does not intend to reverse them in the foreseeable future.

28 Contingencies, commitments and operating risks

28.1 Contractual commitments and guarantees

As at 31 December 2010 and 31 December 2009 the Group had contractual commitments for the purchase of property, plant and equipment from third parties of RR 215 and RR 41 respectively, designated for construction of new and modernisation of existing production facilities.



Notes to the consolidated financial statements

as at 31 December 2010

*(in millions of Russian Roubles, unless otherwise stated)***28 Contingencies, commitments and operating risks (continued)****28.2 Finance lease**

The Group has finance leases for various items of plant, machinery and vehicles. Future minimum lease payments under finance leases together with the present value of the net minimum lease payments are as follows:

	2010		2009	
	Minimum payments	Present value	Minimum payments	Present value
Within one year	56	16	23	23
After one year but not more than five years	208	25	187	34
More than five years	677	-	786	80
Total minimum lease payments	941	41	996	137
Less amounts representing finance charges	(900)	-	(859)	-
Present value of minimum lease payments	41	41	137	137

28.3 Taxation

Russian tax, currency and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant regional and federal authorities. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive position in its interpretation of the legislation and assessments and as a result, it is possible that transactions and activities that have not been challenged in the past may be challenged. As such, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods.

The Group's Management believes that its interpretation of the relevant legislation is appropriate and the Group's tax, currency legislation and customs positions will be sustained. Accordingly, at 31 December 2010 and 31 December 2009 no provision for potential tax liabilities had been recorded. The Group estimates that it has no potential obligations from exposure to other than remote tax risks (31 December 2009: RR 127).

28.4 Environmental matters

The enforcement of environmental regulation in the Russian Federation is evolving and the enforcement posture of government authorities is continually being reconsidered. The Group periodically evaluates its obligations under environmental regulations. As obligations are determined, they are recognised immediately. Potential liabilities, which might arise as a result of changes in existing regulations, civil litigation or legislation, cannot be estimated but could be material. Under existing legislation, management believes that there are no significant liabilities for environmental damage.

28.5 Legal proceedings

During the year, the Group was involved in a number of court proceedings (both as a plaintiff and a defendant) arising in the ordinary course of business. In the opinion of management, there are no current legal proceedings or other claims outstanding, which could have a material effect on the result of operations or financial position of the Group.



Notes to the consolidated financial statements

as at 31 December 2010

(in millions of Russian Roubles, unless otherwise stated)

28 Contingencies, commitments and operating risks (continued)
28.6 Operating environment of the Group

Russia continues economic reforms and development of its legal, tax and regulatory frameworks as required by a market economy. The future stability of the Russian economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the government.

The Russian economy is vulnerable to market downturns and economic slowdowns elsewhere in the world. In 2010 the Russian Government continued to take measures to support the economy in order to overcome the consequences of the global financial crisis. Despite some indications of recovery there continues to be uncertainty regarding further economic growth, access to capital and cost of capital, which could negatively affect the Group's future financial position, results of operations and business prospects.

While management believes it is taking appropriate measures to support the sustainability of the Group's business in the current circumstances, unexpected further deterioration in the areas described above could negatively affect the Group's results and financial position in a manner not currently determinable.

29 Principal subsidiaries

The Group's principal subsidiaries consolidated within the Group and the degree of control exercised by the Company are as follows:

Name	Country of incorporation	Activity	2010		2009	
			% ownership	% voting	% ownership	% voting
OA0 Port Togliatti	Russian Federation	Transportation of finished goods	66%	79%	66%	79%
ZAO Pecherskoe	Russian Federation	Agricultural	100%	100%	100%	100%
OOO Togliattichim-invest	Russian Federation	Trading of construction materials	99.5%	99.5%	99.5%	99.5%
OOO Kuibyshevazot-invest	Russian Federation	Investing	100%	100%	100%	100%
OOO Engineering – Plastic company KuibyshevAzot	China	Engineering plastics production	90%	90%	90%	90%
TH Kuibyshevazot Shanghai	China	Trading company	50%	50%	50%	50%
KuibyshevAzot Trading Co Ltd	Hong Kong	Trading of the Company's products	100%	100%	100%	100%
OOO Activinvest	Russian Federation	Investing	100%	100%	100%	100%
OOO Azotremstroj	Russian Federation	Capital construction	100%	100%	100%	100%
OOO Kurskchimvolokno	Russian Federation	Production of synthetic fiber	100%	100%	100%	100%
OOO Moskovskiye Volokna	Russian Federation	Rental services	100%	100%	100%	100%
OOO Aincom	Russian Federation	Rental services	100%	100%	100%	100%
OOO Baltex	Russian Federation	Production of synthetic fabric	100%	100%	-	-

The Group has control over China subsidiary Trading House Kuibyshevazot Shanghai because the Company has the right to appoint a majority in the Board of directors.



Notes to the consolidated financial statements

as at 31 December 2010

(in millions of Russian Roubles, unless otherwise stated)

29 Principal subsidiaries (continued)

In January 2009 the Company established a new subsidiary in Hong Kong, KuibyshevAzot Trading Co Ltd. The total amount of 100% investment in share capital of this subsidiary is US\$ 10 thousand. The subsidiary sells the products of the Company in Asia.

In August 2010 the Company established a new subsidiary in Saratov region, Russia, OOO Baltex. The total amount of 100% investment in share capital of this subsidiary is RR 0.1. The subsidiary produces and sells synthetic fabric form fiber produced by the Company.

30 Financial risks management

The Group's principal financial liabilities comprise bank loans, non-convertible bonds, finance leases, trade and other payables. The main purpose of these financial liabilities is to provide financing for the Group's operations. The Group has various financial assets such as trade receivables, loans given, cash and short-term deposits, which arise directly from its operations.

The main risks arising from the Group's financial instruments are cash flow interest rate risk, liquidity risk, foreign currency risk and credit risk. The Board of Directors reviews and agrees policies for managing each of these risks which are summarised below.

30.1 Credit risk

Financial assets, which potentially subject Group entities to credit risk, consist principally of trade receivables. The Group has policies in place to ensure that sales of products and services are made to customers with an appropriate credit history. The carrying amount of accounts receivable, net of impairment, represents the maximum amount exposed to credit risk. The Group has no significant concentrations of credit risk. Although collection of receivables could be influenced by economic factors, management believes that there is no significant risk of loss to the Group beyond the impairment already recorded.

With respect to credit risk arising from the other financial assets of the Group, which comprise cash and cash equivalents, available-for-sale financial investments and loans issued, the Group's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments. However, management monitors that cash is placed in financial institutions or invested in financial assets of entities, which are considered to have minimal risk of default.

30.2 Market risk

The Group takes on exposure to market risks. Market risks arise from open positions in interest rate and currency, all of which are exposed to general and specific market movements. The Board of Directors sets limits on the value of risk that may be accepted, which is monitored on a regular basis. However, the use of this approach does not prevent losses outside of these limits in the event of more significant market movements.

30.3 Interest rate risk

The Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group is exposed to interest rate risk through market value fluctuations of interest bearing short-term and long-term borrowings. The Group has no significant interest-bearing assets.

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's bank loans with floating interest rates linked to MOSPRIME and Libor index. At 31 December 2010 approximately 84% of the Group's borrowings are at a fixed rate of interest (2009: 96%).



Notes to the consolidated financial statements

as at 31 December 2010

(in millions of Russian Roubles, unless otherwise stated)

30 Financial risks management (continued)

30.3 Interest rate risk (continued)

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit before tax (through the impact on floating rate borrowings).

		<u>Increase/decrease in basis points</u>	<u>Effect on profit before tax</u>
2010			
Libor	High	1.00%	(4)
MOSPRIME	High	1.00%	(5)
Libor	Low	-0.25%	1
MOSPRIME	Low	-0.75%	4
2009			
Libor	High	1.00%	(1)
MOSPRIME	High	6.00%	(10)
Libor	Low	-0.25%	-
MOSPRIME	Low	-5.00%	27

30.4 Foreign exchange risk

The Group exports production to Asian, American and European countries and is thus exposed to foreign exchange risk. Foreign currency denominated assets (Note 8 and 9) and liabilities (Notes 14) give rise to foreign exchange exposure. Approximately 65% of the Group's sales are denominated in currencies other than RR - the functional currency of the Company, whilst almost 99% of costs are denominated in RR. Hence, the Group is exposed to the related foreign exchange risk primarily with respect to the US\$. However, management believe that foreign exchange risk is not significant.

The following table demonstrates the sensitivity to a reasonably possible change in the US\$ and EURO exchange rate, with all other variables held constant, of the Group's profit before tax (due to changes in the fair value of monetary assets and liabilities). There is no impact on the Group's equity.

		<u>Increase/decrease in basis points</u>	<u>Effect on profit before tax</u>
2010			
EURO	High	11.05%	(63)
USD	High	8.90%	(41)
EURO	Low	-11.05%	63
USD	Low	-8.90%	41
2009			
EURO	High	14.0%	112
USD	High	14.8%	(43)
EURO	Low	-14.0%	(112)
USD	Low	-14.8%	43

30.5 Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash, the availability of funding through an adequate amount of committed credit facilities (31 December 2010: RR 2,782; 31 December 2009: RR 360) and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, Group Treasury aims to maintain flexibility in funding by keeping committed credit lines available.



Notes to the consolidated financial statements

as at 31 December 2010

(in millions of Russian Roubles, unless otherwise stated)

30 Financial risks management (continued)

30.5 Liquidity risk (continued)

The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2010 based on contractual undiscounted payments.

Year ended 31 December 2010	Less than 3 months	3 to 12 months	1 to 5 years	> 5 years	Total
Interest bearing loans and borrowings	133	4,389	4,184	72	8,778
Non-convertible bonds	1,127	-	-	-	1,127
Trade and other payables	1,928	-	-	-	1,928
Finance lease liability	15	41	208	677	941
	3,203	4,430	4,392	749	12,774

Year ended 31 December 2009	Less than 3 months	3 to 12 months	1 to 5 years	> 5 years	Total
Interest bearing loans and borrowings	1,479	4,746	1,053	824	8,102
Non-convertible bonds	-	-	2,205	-	2,205
Trade and other payables	936	-	-	-	936
Finance lease liability	6	17	187	786	996
	2,421	4,763	3,445	1,610	12,239

30.6 Capital management

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise shareholder value.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders or sell treasury shares held by subsidiaries. No changes were made in the objectives, policies or processes during the years end 31 December 2010 and 31 December 2009.

30.7 Fair values

Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by an active quoted market price.

The estimated fair values of financial instruments have been determined by the Group using available market information, where it exists, and appropriate valuation methodologies. However, judgment is necessarily required to interpret market data to determine the estimated fair value. Market quotations may be outdated or reflect distress sale transactions and therefore not represent fair values of financial instruments. Management has used all available market information in estimating the fair value of financial instruments.

At 31 December 2010 and 2009, the fair value of financial instruments, which is estimated by discounting the future contractual cash flows at the current market interest rate available to the Group for similar financial instruments with the same remaining maturity, approximates their carrying value.



Notes to the consolidated financial statements

as at 31 December 2010

(in millions of Russian Roubles, unless otherwise stated)

30 Financial risks management (continued)

30.7 Fair values (continued)

Set out below is a comparison by category of carrying amounts and fair values of all of the Group's financial instruments that are carried in the financial statements:

	Carrying amount		Fair values	
	2010	2009	2010	2009
Financial assets:				
Cash and cash equivalents	1,843	1,738	1,843	1,738
Short-term financial assets	187	64	187	64
Long-term financial assets	472	512	444	511
Financial liabilities:				
Short-term borrowings	4,332	6,036	4,332	6,036
Long-term borrowings	3,688	1,333	3,550	1,246
Finance lease liability	41	137	322	298
Non-convertible bonds	1,111	2,000	1,111	1,841
Trade and other payables	1,928	936	1,928	936

31 Events after the reporting period

On 14 April 2011 OOO Kuibyshevazot-invest placed the 4th bonds issue of RR 2,000 at the interest rate of 8.6%. These bonds were guaranteed by the Company.

On 29 April 2011 the annual shareholders meeting approved distribution of net profit for 2010 including payment of dividends amounting to RR 2.2 per ordinary and preference share.